2017

Outlook Q3

SJS

You come first. All the time. Every time.™

MarketPlus INVESTING®

October 2017

Is MarketPlus® Smarter than Harvard?

Soon after the close of the fiscal year ending June 30th each year, a steady stream of performance reports come out from major universities regarding the investment results of their endowment portfolios.

SJS monitors these results. We gauge our MarketPlus portfolio outcomes against these large pools of capital that are run by the best and brightest in the industry. We call it "institutional benchmarking."

Direct comparisons usually require a page full of disclosures about why our apples behaved differently than their oranges, but suffice it to say that SJS MarketPlus results tend to fall "in the mix" each year of investment results – we are better than some, while some are better than ours. The determinants of each portfolio's results align with the design of each portfolio. Portfolio design is one of the Four Core Fundamentals of MarketPlus Investing.

We review institutional results and asset allocations. Did the portfolio at hand invest heavily in lumber and natural resources? How did that work out? Did Private Equity and Hedge Fund results carry the day?

In recent years, Public Equities – both domestic and international – have been leading performers. Your MarketPlus portfolio has been favorably impacted by public equity results directly proportional to the amount of exposure (risk) you have assumed in these asset classes.

Monday morning quarterbacking is easy to do and often shameless. Allow SJS to check its shame at the door briefly …

Harvard Management Company invests more than $37 billion of the University's endowment assets. Their results for the fiscal year ending June 30, 2017: +8.1%.

Harvard labeled their own results "disappointing." They fall near the bottom rung of most published results for major university endowments for this period of time, and they have struggled in recent years on a relative performance basis.

Harvard is making changes to their investment strategy. As an institution, they are questioning their investment principles.

"… we at SJS are firmly grounded in our investment principles. Our foundation is built on what we consider the best evidence-based research available in the industry …"

In contrast, we at SJS are firmly grounded in our investment principles. Our foundation is built on what we consider the best evidence-based research available in the industry. As academic research reveals new findings, as investment science evolves, we adapt incrementally to maintain efficiencies and effectiveness in our MarketPlus portfolios. Know that on a risk-adjusted basis, we are pleased to stack up our results over the past 22 years against the best and brightest around!

Where Will <u>You</u> Be 100 Years From Now?

Most of us won't be able to fog a mirror 100 years from now, but that hasn't stopped the government of Austria from issuing government bonds that won't mature *until the year 2117*.[1] That's not a typo – the bonds will mature 100 years from now!

So what interest rate do they have to pay investors to persuade them to purchase these bonds? Believe it or not, investors agreed to just 2%! If you look at this security like a stock, it trades at 50 times earnings for the next 100 years! Seems to us that inflation might gobble up the purchasing power of any money invested here. And while you might think that appetite would be limited, Bloomberg reports that 11 <u>billion</u> Euros have been invested in these century bonds.[2]

> "Historically, bonds with maturities in the 5 to 10 year range and beyond often fluctuate in value in a way that we believe is much too bumpy given the return on investment…"

Who would make such an investment? Insurance companies have been a big buyer, according to Bloomberg, because their job is to match the maturity of their assets with the long-term liabilities they carry on their balance sheets.

At SJS, we see a government that is thinking long-term, and taking advantage of an interest rate market that may not always be this low. Others may view this as a government borrowing or operating beyond its means.

All that said, please know that SJS has no plans to buy bonds with 100, 50, or even 30 year maturities. Historically, bonds with maturities in the five-to-ten year range and beyond often fluctuate in value in a way that we believe is much too bumpy given the return on investment. In light of the current historically low yields on bonds, we have sought yield in the corporate credit market and alternative investments, but believe staying in <u>shorter</u> maturities remains in your best interest.

As always, time will tell if our crystal ball is a little foggy, or if the risks we are avoiding come into focus. Either way, breathe easy, and fog your mirror as long as you can!

[1] "Austria Thinks Long, Announces 100-Year Bond," <u>Wall Street Journal</u>, September 12, 2017.

[2] "Peculiar Market Strikes Again with Sale of 100-Year Austrian Bond," <u>Bloomberg.com</u>, September 13, 2017.

Staying the Course

We've all been advised, at one time or another, to "stay the course." This idiom may call to mind the image of a sailboat captain following his way across the sea without losing focus, but the phrase was likely coined in the late 1800s in reference to horses holding out until the end of a race. (Source: Etymonline.com)


Image source: margiewarrell.com

Based on recent events,"stay the course" might be considered good advice for all of us this autumn. Three of the strongest hurricanes in recorded history have just hit the United States and Puerto Rico. North Korea has increased the magnitude and the frequency of threats it is making toward the U.S. and other nations as well. Each time you turn on the news or pick up a newspaper, you may see news stories that threaten to push you off course, maybe even with respect to your investment strategy.

"While the dramatic events of the world today may leave you feeling anxious or concerned, your team at SJS wants to counter-balance these emotions with facts and data that drive decision-making…"

While the dramatic events of the world today may leave you feeling anxious or concerned about the future, your team at SJS wants to counterbalance these understandable emotions with facts and data that drive investment decision-making. We have worked with you to implement a MarketPlus Investing® strategy designed to help you achieve your financial goals. Although the market may fluctuate, you can rely on market efficiency – even in today's environment.

But there are always things to be done, regardless of what is happening in the world at large. At SJS, we review the asset allocation of your portfolios on a continual basis to decide if we need to buy or sell any assets to bring your portfolio back into balance. This process and practice helps assure that your portfolio remains aligned with the risk and return targeted for your specific investment goals.

If you're ever feeling anxious or have questions about your portfolio, please call us. Like you, we hear the news reports – which certainly tend toward the dramatic – but we can provide our perspective on any current market events and offer historic parallels that remind us it may not be so different this time. Our experience and belief in our MarketPlus Investing approach allow us to remain calm and ready to capitalize on opportunities that may present themselves. In times like these, the disciplined process of MarketPlus Investing may provide you with peace of mind.

We realize the unexpected will confront us time and again in the future. In the event that we should experience a natural disaster closer to our home, SJS has created a detailed recovery plan to ensure that we will be able to continue operating and serving you, as always. You come first – all the time, and every time – even if Mother Nature may throw a few curveballs our way. So whether it's with the image of a stalwart ship's captain or galloping racehorse in mind, our hope is that you, too, will stay the course with us.

10 Commandments … of Money

Now seems like a good time to repeat one of our most requested SJS Outlook features – the "10 Commandments … of Money." We think good advice certainly bears repeating!

1. Thou shall diversify investments, because markets tend to be efficient.
2. Thou shall not live beyond thy means.
3. Thou shall not time the market.
4. Thou shall not give unearned money to thy children, robbing them of a vital learning opportunity.
5. Thou shall not abandon investment discipline during a Bear Market.
6. Thou shall not abandon investment discipline during a Bull Market.
7. Thou shall not covet thy neighbor's hedge funds.
8. Thou shall not hire a money manager based on recent track records.
9. Thou shall not overpay for the delivery of investment advice.
10. Thou shalt not pay undue taxes in an investment portfolio.

Quotable and Notable:

"Do not save what is left after spending, but **spend what is left after saving**."

- *Warren Buffet*

About SJS Investment Services

SJS Investment Services has been serving as investment advisor and co-fiduciary for individuals, foundations, public entities, retirement plans, financial institutions and corporations since 1995 through our proprietary process called MarketPlus Investing. With more than $1.8 billion* in assets under management, we bring you major money center investment experience and a team of people whose small-town values put you first, all the time, every time.

*As of 9/30/17

SJS Investment Services

You come first. All the time. Every time.™

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